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The New Cabinet: Political Balance And Policy Continuity

The cabinet of newly installed Prime Minister Noboru Takeshita reflects a delicate balance of intra-party politics and policy considerations. With six seats in the new government, the Takeshita faction holds a slight plurality, but in terms of qualitative representation the faction of former Prime Minister Yasuhiro Nakasone fared extremely well, capturing the Foreign Affairs, Posts and Telecommunications, and Construction ministries. With this heavy representation in key positions, Mr. Nakasone's influence on the new government could be significant, although it is not likely to be dominant. Both the Abe and Miyazawa factions landed four positions of generally comparable status in the

new government. Abe faction member Takashi Sato is the new agriculture minister, an important post for anyone with ambitions for the future. Miyazawa supporter Tsutomu Kawara is the new Defense Agency director general, another position that has grown in stature in recent years in response to significant changes in defense policies.

Mr. Takeshita apparently was sensitive to the perception abroad that he lacks international experience, since Kiichi Miyazawa was retained as finance minister. Mr. Miyazawa reportedly sought to remain in his post for both personal and policy reasons. His reappointment signals the likelihood of policy continuity in Japan's fiscal and monetary policies. By the same token, the new government's foreign policies are likely to remain consistent at least for the short term with the appointment of a Nakasone loyalist as foreign minister. In commercial and trade policies the same principle holds true, with Hajime Tamura staying on as head of the Ministry of International Trade and Industry.

Mr. Kawara's appointment as JDA director general is an interesting one. As the price of support for the Nakasone government when it was first formed, Zenko Suzuki, the head of the faction now led by Mr. Miyazawa, reportedly insisted that the JDA director general be a member of his group, which was perceived as having less hawkish leanings. Both the agency's heads in the Nakasone government -- Yuko Kurihara and Koichi Kato -- entered the positions as respected, articulate "doves" on defense policies. It appears that the Miyazawa faction has inherited that logic in having one of its members named to the position under the Takeshita government. Although less is known about Mr. Kawara's inclinations since this is his first time as a cabinet appointee, it can be assumed that he is likely to follow the cautious stance of both Mr. Suzuki and Mr. Miyazawa toward defense policies (he served as deputy chief cabinet secretary under then Prime Minister Suzuki), while sustaining the general direction of current policies.

Takeshita loyalist Keizo Obuchi is the government's new chief cabinet secretary, under any circumstances an important position but one likely to be even more central to the policymaking process in a government headed by an individual known more for his consensus-building skills than his policy initiatives. One interesting appointment is that of Abe faction member Shintaro Ishihara, once a somewhat controversial figure because of his staunch nationalism. As the new transportation minister, he has an opportunity to gain a larger national and intra-party following. Finally, the faction of Toshio Komoto is represented in only two positions -- the Ministry of Health and Welfare and the Science and Technology Agency -- reflecting the marginal impact of the faction on the outcome of the Liberal Democratic Party presidential race in October.

Media commentaries in both Japan and the United States have correctly noted that -- for better or worse -- the new cabinet alignment indicates an emphasis on policy continuity on virtually every domestic and international front. Clearly, the most important priority in the domestic arena is pursuit of tax reform, while international relations demand attention on several fronts, including South Korea, the People's Republic of China and the United States. Mr. Takeshita might try to seize the momentum in these foreign policy areas through personal visits to each country early in the new year. Finance Minister Miyazawa has been outspoken on the direction of international financial policies and the responsibilities of the United States to rectify its own

problems before demanding more of Japan. While it is likely that many -- if not most -- Japanese policymakers and business groups share these perceptions, this is not necessarily an indication of a new "hard line." More likely, it suggests a degree of autonomy for members of the cabinet. This is a problem that could baffle the regime for months to come, since three prominent members of the ruling LDP are directly or indirectly involved in the goverment.

The cabinet alignment, nevertheless, is a transitional arrangement representing policy considerations and political expedience. Mr. Takeshita is bound by the support of other major faction leaders in the LDP, just as Mr. Nakasone was linked with Kakuei Tanaka in the early days of his government. Mr. Takeshita's challenge will be to establish an independent power base and distance himself from at least one of the other three LDP power blocs in the next year. If he succeeds, it is a virtual certainty that the cabinet will be reshuffled within the next twelve months. The question then is to whom the prime minister remains beholden for his office.

Michael W. Chinworth

The First Takeshita Cabinet
November 6, 1987

Position	Name	Age	Faction
Prime Minister	Noboru Takeshita	63	Takeshita
Deputy Prime Minister	Kiichi Miyazawa	68	Miyazawa
Finance	Kiichi Miyazawa	68	Miyazawa
Justice	Yukio Hayashida	71	Miyazawa
Foreign Affairs	Sosuke Uno	65	Nakasone
Education	Gentaro Nakajima	58	Abe
Health and Welfare	Takao Fujimoto	56	Komoto
Agriculture, Forestry and Fisheries	Takashi Sato	59	Abe
International Trade and Industry	Hajime Tamura	63	Takeshita
Transportation	Shintaro Ishihara	55	Abe
Posts and Telecommunications	Masaaki Nakayama	55	Nakasone
Labor	Taro Nakamura	69	Takeshita
Construction	Ihei Ochi	66	Nakasone
Home Affairs	Seiroku Kajiyama	61	Takeshita
State Ministers			
Chief Cabinet Secretary	Keizo Obuchi	50	Takeshita
Management/Coordination Agency	Osamu Takatori	58	Takeshita
National Land Agency	Seisuke Okuno	74	Unaligned
Japan Defense Agency	Tsutomu Kawara	50	Miyazawa
Economic Planning Agency	Eiichi Nakao	57	Nakasone
Science and Technology Agency	Soihiro Ito	63	Komoto
Environmental Protection Agency	Tohio Horiuchi	69	Abe
Okinawa/Hokkaido Development Agencies	Shigeru Kasuya	61	Miyazawa
Cabinet Legislative Bureau	Osamu Mimura	63	Unaligned

is, of course, not unlimited and an appreciating yen reduces the level of aggregate demand in the economy overall. Whether the EPA findings will stand up in the face of further increases in the value of the yen remains to be seen. EPA used a value of Y137=$1.00 to reach its conclusions regarding rationalization, for example. At JEI press time the dollar was below that.

Douglas Ostrom

Japan's Current Account Surplus Turns The Corner

Buried under the late October avalanche of stories about the gyrations of the New York and Tokyo stock markets and the dollar's tumble was some more upbeat economic news from Japan: the 1987 current account surplus -- rather than topping last year's $85.9 billion number as analysts were predicting as recently as three months ago -- should come in slightly below that record. Although the surplus had shrunk on a year-to-year basis in the April-June period, the decline was too slight for economists to state unequivocally that the string of 18 consecutive quarterly increases had been broken for good. But the July-September figures proved that the corner has in fact been turned since at $20.9 billion the balance in merchandise trade, services and transfers was one-seventh below the comparable 1986 figure (see Table 1). With all signs pointing to an even bigger fourth quarter drop, Japan's current account surplus this year is likely to fall at least $1 billion shy of the all-time high.

Even the worst-case scenario is not as bad as it was in late summer since a straight-line extrapolation of the data through September puts the 1987 surplus at $86.1 billion -- only $0.2 billion more than last year's imbalance. Most analysts have linked this improvement to the impact of the appreciating yen on Japan's trade surplus, which finally contracted on a balance of payments basis (imports valued f.o.b. rather than c.i.f. as in the more widely used customs clearance trade numbers) in the July-September period after also chalking up gains for 18 consecutive quarters (see JEI Report No. 40B, October 23, 1987). But equal billing should be given to the bigger services deficit. Thanks to the strong yen, overseas travel by Japanese has soared this year. These trips have produced a record deficit in the combined travel and passenger transportation category in each of the first three quarters and pushed Japan's services trade deficit deeper into the red despite a continuing jump in the quarterly numbers for net investment income.

While the new balance of payments figures confirmed that Japan's quarterly current account surplus did peak in the April-June period, they also detailed what securities markets around the world already knew -- that Japanese financial institutions had reduced their overseas exposure during this time, while foreign investors had increased their net holdings of Japanese bonds. July's net long-term capital outflow of $18.5 billion was just short of the monthly record set in June ($19.2 billion). But then the net outflow slowed to a trickle, dropping to only $1.4 billion in August and $2.3 billion in September. Net Japanese purchases of foreign bonds fell from $8.9 billion in July to a mere $2 billion in September, although net purchases of offshore (mainly American) stocks remained brisk (see Table 2). At the same time, falling bond prices in Japan and expectations of a stronger yen led to back-to-back record net bond purchases by foreigners of $3.3 billion in August and $3.4 billion in September.

Susan MacKnight

Table 1: Japan's Balance of Payments

(in millions of dollars)

	Trade Balance	Exports (f.o.b.)	Imports (f.o.b.)	Services (net)	Current Account Balance	Long-Term Capital (net)
1982	$18,079	$137,663	$119,584	$-9,848	$6,850	$-14,969
1983	31,454	145,468	114,014	-9,106	20,799	-17,700
1984	44,257	168,290	124,033	-7,747	35,003	-49,651
1985	55,986	174,015	118,029	-5,165	49,169	-64,542
1986	92,827	205,591	112,764	-4,932	85,845	-131,461
1986:I	14,552	44,813	30,261	-1,145	12,668	-18,990
1986:II	23,922	52,270	28,348	-374	23,099	-28,882
1986:III	26,793	53,859	27,066	-1,922	24,413	-38,410
1986:IV	27,560	54,649	27,089	-1,491	25,665	-45,179
1987:I	23,373	50,515	27,142	-1,348	20,962	-32,209
1987:II	25,038	55,823	30,785	-1,601	22,762	-44,365
1987:III(p)	23,600	56,596	32,996	-2,089	20,860	-22,210

Source: Bank of Japan

Table 2: Japanese Net Purchases of Foreign Securities

(in millions of dollars)

	Bonds			Stocks		
	Purchases	Sales	Net	Purchases	Sales	Net
1982	$16,980	$10,904	$6,076	$1,126	$975	$151
1983	22,905	10,400	12,505	2,106	1,445	661
1984	56,348	29,575	26,773	1,570	1,519	51
1985	291,338	237,859	53,479	5,484	4,489	995
1986	1,346,989	1,253,965	93,024	20,917	13,869	7,048
1986:I	251,591	234,330	17,261	2,793	1,961	832
1986:II	368,271	343,467	24,804	3,717	2,260	1,457
1986:III	357,331	330,980	26,351	6,481	4,473	2,008
1986:IV	369,796	345,188	24,608	7,926	5,175	2,751
1987:I	377,850	354,648	23,202	13,925	9,386	4,539
1987:II	341,880	316,585	25,295	15,277	9,797	5,480
1987:III(p)	325,517	308,421	17,096	21,882	18,369	3,512

Source: Bank of Japan